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THE CHANGING POSITION OF AMERICAN TRADE.

BY THOMAS A. THACHER.

WHEN, in 1904, the well-known English grain expert, Mr. G. V. S. Broomhall, wrote that in his opinion the United States was destined to shift slowly from the position of an exporter of surplus wheat to that of a wheat importer, little attention was attracted in America and the beliefs of the Englishman were considered merely as a rather dubious theory. Two years later when a man so thoroughly acquainted with American conditions as Mr. James J. Hill declared, in a speech before the Minnesota State Fair, that within twenty years the wheat raised in the United States would be insufficient for domestic consumption, his statements were also set down as relating to a distant period in no immediate connection with present-day finance. Yet during the last twelve months a constantly more threatening cloud has arisen on our financial horizon in the shape of a shrinking balance of trade caused largely by the fact that in recent years American grain exports have been steadily declining.

Dealing concisely with the statistics of our foreign trade during the fiscal year ending June 30th, 1910, we find startling results. In the face of a great revival of business during the summer months of 1909 and its steady increase into 1910, our annual trade balance fell lower than it has been since 1895-8. After a continuous record of monthly export balances of merchandise for the twelve years ending June 30th, 1909, five out of the following twelve months showed balances of imports. The prospects for the current fiscal year are not promising. In July, the first month of the year, imports again exceeded exports by \$2,818,000.

How poor a comparison the trade balance for the last fiscal year makes with the records of the several years preceding is shown by the following table:

Fiscal year ending June 30.	Exports.	Imports.	Balance.
1910.....	\$1,744,900,000	\$1,557,800,000	\$187,100,000
1909.....	1,663,000,000	1,311,900,000	351,000,000
1908.....	1,860,700,000	1,194,300,000	666,400,000
1907.....	1,880,800,000	1,434,400,000	446,400,000
1906.....	1,743,800,000	1,226,500,000	517,300,000
1905.....	1,518,500,000	1,117,500,000	401,000,000
1900.....	1,394,400,000	849,900,000	544,500,000

While *prima facie* the decline in our trade balance seems almost wholly due to the increase in our imports, yet the seriousness of the situation is apparent when the steady decline in grain exports is considered. In comparing the largest items in the exports, we find that the proportion of breadstuffs has been falling off while manufactures have been increasing.

Fiscal Year.	Foodstuffs.	Breadstuffs.	Manufactured Products.
1910.....	21.5%	7.6%	44.9%
1909.....	26.7	9.6	41.0
1908.....	28.4	11.5	40.9
1907.....	27.6	9.7	39.9
1906.....	30.5	10.7	39.9
1900.....	40.0	18.8	35.4

The falling off in wheat and corn shipments have been very marked in the last twelve months. With a wheat harvest, in 1909, of 737,000,000 bushels, exceeded only once in our history, we find the abnormally small exports in the fiscal year just ended of only 88,100,000 bushels of wheat and flour valued at \$95,481,000. Except during 1904-05, when the 1904 crop was only 552,000,000 bushels, the wheat exports of 1909-10 were smaller than any year since 1876-77. The decline in wheat shipments has been going on for some years. Thus the average number of bushels of wheat and flour exported annually in the five years ending June 30th, 1904, was 192,600,000 bushels, while from 1905 to June 30th, 1909, it averaged only 115,000,000 bushels. This decrease in exports resulted, in spite of an increase in annual production, from an average of 625,100,000 bushels from 1899-1903 to 655,800,000 in 1904-09. The harvests of calendar years ending in 1908 resulted in the exports for the years ending June 30th, 1909, first given. Although the corn crop of 2,772,000,000 bushels was the second largest crop recorded in the United States, only 36,800,000 bushels were shipped as compared with the average annual export in the five years before of 48,300,000 bushels. That the corn is not being sent abroad indirectly through feeding to hogs and

cattle later shipped is shown by the steady decline in our meat exports. Meat and dairy shipments fell from \$192,802,000 in 1908, and from \$166,521,000 for 1909, to \$130,632,000 in the fiscal year just ended. Cattle and hog exports were valued at only \$12,246,000 in 1910 as compared with \$18,190,000 in 1909 and \$29,646,000 for the year before.

This decrease in the value of our exported breadstuffs naturally causes apprehension in the ordinary business man, schooled in his belief in the exportable surplus of the crops as the greatest source of a favorable trade balance. At once the question arises: will the cereal surplus continue to decrease, and if so, what effect will it have upon the business of the country?

Stripped of all minor causes, the fundamental reason for the decline in grain exports undoubtedly is that the United States is to-day consuming an increasing amount of breadstuffs. The increased production of wheat brought about by larger acreage or by a greater number of bushels per acre has not kept pace with the growth of population. This fact has been apparent during the last ten years. The average annual production of wheat from 1906-10 was only 4.8 per cent. greater than from 1900-04, while the estimated population was 8 per cent. greater in the second than in the first period.* In addition to this a recent investigation made by the United States Department of Agriculture showed an increase in domestic consumption of wheat annually of from 5.11 bushels per capita in 1900 to 6.34 in 1908. Even if the increase were only one bushel per inhabitant from 1900 to 1910, it is seen that the additional wheat required because of this alone would be at least 88,000,000 bushels in ten years. Between the growing population in our country and the enlarged consumption of wheat by each inhabitant, one cannot wonder that experts differ as to how much over 10,000,000 bushels annual increase the United States must have in order to maintain her place as an exporter of wheat. Certainly, however, the dismay excited by the early indications during this present year of a crop of only about 640,000,000 bushels of wheat is more easily understood.

The decrease in wheat produced per capita has been naturally accompanied by a rise in prices in the United States. For the 1909 wheat crop the average price received by the grower was

* Population estimated at 90,000,000 in 1910. Wheat crop of 1910 estimated at 675,000,000 bushels.

99 cents per bushel, as against 92.8 in 1908, 87.4 in 1907, 66.7 in 1906, and 74.8 in 1905. These high prices for American wheat have not been followed closely by the world's market price set in Liverpool. While the price of wheat received by the average American farmer rose 20.4 per cent. in the years 1905-09 over the years 1900-04, the average Liverpool cash price rose only 17 per cent. Where the wheat-importing nations once looked almost wholly to America for their wheat, they are now relying largely on other countries.

How great a change in this direction has taken place is indicated by the following statistics published in the "London Economist" of May 14th, 1910.

Proportion of imports of wheat to the United Kingdom from various countries:

	1900-1902. Three years' average.	1903-1909. Seven years' average
United States.....	62%	27%
Argentina	10	19
India	4	14
Russia	4	14
Canada	9	12
Other Countries.....	11	14
	<hr/> 100	<hr/> 100

The same changing conditions which have affected wheat have had a similar influence upon corn shipments and such other exports as depended upon the former state of agriculture in America. Mr. J. Ogden Armour, in speaking of the shipping of cattle abroad, said in a recent newspaper interview:

"The meat export business from the United States to Europe is dead. South America is furnishing the meat that Europe consumes, and this country cannot compete with advantage with South America. Cattle conditions there are as they were in the West twenty-five years ago."

Contemplation of the present state of our wheat production gives little encouragement to those who desire America to regain her position as the cereal-exporter among nations. Even if millions of dollars are spent upon reclaiming the arid soils of the West, yet the increased acreage thus obtained hardly seems likely to do more than relieve the rapidly rising prices for wheat in this country. Undoubtedly scientific intensive farming will be practised to a constantly increasing extent, but if the Liver-

pool price does not rise greatly, such methods can hardly be relied upon to keep the American price down to an export basis.

If the United States is to maintain her present international position, although her crops can no longer be depended upon to build favorable trade balances, her exports must be increased in another direction. The shipping of manufactured goods alone is a field sufficient to sustain our future progress as a trading nation. Increasing exports of manufactures must take the place of the declining shipments of grain.

It should be recognized that the natural strength of the United States as an exporter of cereals is very different from her position as an exporter of factory products. It is not hard for a nation which produces a larger part of the grain consumed by cereal-importing countries to keep its trade balance favorable. All nations must eat, and short harvests in the producing country, if its crop is of sufficient proportion to the world's production, will be compensated for by a rise in prices. In the past the United States has had an invincible superiority in grain production because of the vast amount of land suitable for cultivation. No amount of agricultural knowledge, cheap labor or reasonable transportation charges can make one nation possessing very limited areas of grain country become a successful competitor with another nation endowed with great tracts of fertile, cereal-growing soil, although handicapped by high wages, costly freight rates and a low degree of knowledge as to scientific farming. In developing manufactured exports America competes with the advanced nations of Europe upon what is practically an even basis. Commercial credit, wide-spread knowledge as to foreign markets, cheap transportation, low wages, etc., will be the determining factors in this struggle for trade. Whatever the great areas of fertile, well-watered land one nation may possess, they will count for very little. The problem of the United States in the future is to keep the prices of manufactured articles down to an export basis. As is the case with wheat, the manufactures must be kept at a price where they will be taken for foreign markets. Once above this export point, American shipments will be little influenced, no matter how high the prices are pushed. No goods will go.

To reduce prices it is evident that American manufacturers must cut down the cost of production. The chief item in the

cost of production to-day is the expensiveness of labor. High wages must be brought down. American brains working out improved machinery and labor-saving devices will do much, but the future success of America in foreign trade lies in the ability of her labor to successfully compete with the so-called "pauper labor" of Europe, which has so often figured as a bogey in our political campaigns. American ability counts more in the manufacture of many of our present exports than it will in those goods which we must sell abroad in the future. Steel products made by gigantic and newly equipped plants, hardware and such articles as typewriters and fountain-pens depend far more for their cost upon the skill of the manufacturer than do cotton cloths or woollen goods. We have developed an excellent market for articles which our ingenuity has allowed us to make cheaply. In the future we must rely more on the growing inexpensiveness of our labor. For the successful development of exports of such goods as print cloths and wool manufactures American labor must not receive very much more than does European labor of the same grade.

Obviously the present wages paid in this country cannot be cut down without material reductions in the high prices now charged for the necessities of life. It would be folly to expect the working-man to receive peacefully wages in any way comparing to those paid in Europe until he can buy his wants for approximately the European price. He must live very much as he does to-day. Breadstuffs can always be obtainable as cheaply in America as in England, unless prices are allowed to be forced up behind a tariff wall. Clothing, shoes and other factory goods must gradually fall in value if employers do not wish to continue the present price of labor. The present system of high wages and high cost of living must be followed by lower wages and lower cost of living. By such a change the standards of the working-man would not be affected, but the ability of our nation to export manufactured goods would be greatly increased. The whole scale of prices in America, carried as it is to a very artificial height in many directions, must work down toward a European basis.

This decline of inflated American prices to more nearly the European levels lies before us to-day. It is almost America's only choice. The United States is in a very different position from that of Great Britain. We own almost no ocean liners and receive negligible freight money; we have only small in-

vestments abroad and collect very little in dividends, interest or rents; our tourists spend millions each year on the Continent—every factor in exchange has been working against us except our preponderating trade balance resulting from merchandise exports. While a decline in imports may easily take place during the next twelve months, our present position as a nation is only to be held if our imports naturally grow but our exports increase as rapidly. If we were content to do less and less trade each year in order to preserve a favorable balance, the future greatness of this country would indeed be little assured.

Such a readjustment of prices may take place easily, or it may be a slow and painful process accompanied by distressing industrial times and carrying with it suffering, bitterness and political chaos. If such a period of business depression does come about Americans can rest confident that from the peril of such a crisis our nation will rise more firmly established than ever before in its position as a leader of the industrial powers. Our present price level blocks our progress. When, however, America's prices are sufficiently low, we can rely upon astute diplomatists, a wise and far-sighted State Department, and a large, well-equipped navy to secure our nation advantageous privileges in foreign markets—but the days when Europe must buy from us or go without many of the necessities of life are fast coming to an end.

THOMAS A. THACHER.